The Management REVIEW

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THE AMERICAN MANAGEMENT ASSOCIATION

is the formal name of a unique cooperative enterprise. Through it a nationwide group of executives in virtually every field of business activity work together to promote the interest they all share. . . . *better management.*

Better Management

as the American Management Association uses the term, includes everything that contributes toward the more efficient operation of industry . . . more skilful and economical manufacturing; more intelligent and productive selling; better and wider knowledge of the principles of organization; sympathetic handling of the human factor in business; and more dynamic exercise of executive control. The Association does no special pleading and issues no propaganda.

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Even the *effort* for better-managed organization must itself be organized. AMA members have organized themselves in six divisions: Office Management, Insurance, Personnel, Finance, Marketing and Production. Each is led by an executive chosen by his fellow members for his authoritative knowledge and successful practice of management principles in that particular field.

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The Management REVIEW

AMERICAN industry is in for some drastic readjustments if present population trends continue, states Stuart Chase in an article condensed on page 40 (Population Going Down). While births have been declining at a headlong pace, the death rate has now reached a minimum. In a few years' time these rates will counterbalance, and from then on the trend will be downward. The population will become preponderantly old, and the demand for industry's products will be modified accordingly. Industries catering to the young will enter a slow decline, while those supplying the aged may expect a brisk trade.

A lot of phrenetic schemes will probably be proposed to remedy such a situation—euthanasia for the old, curly-maple suites for newlyweds, taxes on bachelors, and bounties for twins. But Mr. Chase fatalistically concludes that the trend is irreversible.

DURING the past few years the closing of thousands of chain stores under pressure of state tax laws has hit the "common peepul" in a vital spot. Now that their pocketbooks have felt the effect of these measures, price-conscious consumers have undergone a radical change of heart on the chain-store question. About two years ago a *Fortune* survey showed that 56 per cent of the public were in favor of taxing the chains. Today this picture stands revolutionized, according to an article digested on page 57 (Verdict on the Chain Stores). Only 6.3 per cent of the public now believe the chains should be put out of business.

Apparently the worm has at last turned on the Honorable Wright Patman and others who have originated the chain-store tax bills. Where such bills have been enacted, they appear to have victimized the consumers, whom the law is professedly designed to protect. Now thoroughly aroused by the turn things have taken, the public is beginning to inquire of its legislators, in the words of an English tragedian:

"Perhaps it was right to dissemble your
love,
But—why did you kick me down stairs?"

Current Comment

PUBLIC RELATIONS TECHNIQUES

First, in any program to better public relationships, come the employees. Good public relationships result in the end from good inside relationships. Sound policies may originate at the top, but they have no meaning until applied in the outer office and in the shop. In general, good relationships with employees spring from the simple, human, natural things that are done in their interest.

There are endless opportunities for improving employee relations. Many good ideas for building better relationships with employees are shoved aside for no other reason than that they are too much trouble. For instance, one concern has what it calls a "circulating tool library"—a project by which sons of employees can borrow tools for home use. Not much cost connected with this, but quite a bit of trouble.

There is no set formula for public relations at work inside a plant. It is the task of each individual enterprise and of each management group to determine, by careful study and personal investigation, the needs and desires of its own employees.

Right now there is a furore over employee editions of annual reports. It is a salutary movement, answering a simple, human desire we all have—the desire to know what is going on. Some good starts have been made. Doubtless more effective techniques will finally be developed. Once we learn how to produce a report that employees can understand, we might do well to send a few to stockholders. The typical annual report is still designed more for market analysts than for the ordinary stockholder.

Second, and linked vitally to policies and practices that make for good relations with employees inside the plant, come those policies and practices that make for good relations with the community outside the plant.

One decentralized company runs frequent local newspaper

ads giving pertinent operating facts for each plant as they affect its own community. These ads tell where the raw material comes from, where the money goes, how many men over 40 are working, and any number of friendly items of local interest. This makes the community feel a proprietary interest in the plant. And it spikes rumors.

The custom of holding "open house" for the families and neighbors of employees to come in and see where "the old man" works is becoming quite general. In one progressive firm the employees are the hosts. Jim Jones, the machinist, takes the banker over and demonstrates how his drill press works. Plant pride and civic pride are thus welded into one.

Third, and reaching out beyond the employees and the plant community, comes a group to which too little attention has been paid. I refer to industry's suppliers with their hundreds of related businesses, who are, by whatever name you want to call them, partners in the enterprise. Relations with these sometimes large, but more often small, enterprises typify the interdependencies that hold our American economy together. These companies are not simply "sources of supply." We should regard them for their human elements and social values. Here is a field in which very little has been done.

Fourth comes the most important group that is the common denominator of all—the consumers—the group upon whom American industry has bestowed its greatest benefits. Possessor of the highest standard of living in the world, enjoying conveniences and luxuries hardly dreamed of elsewhere, the American consumer is in the final analysis both the creator and the beneficiary of our system of industrial enterprise.

Industry must more and more interpret itself in terms of customer benefits. There is a vital and dramatic story, for instance, in the vast new values created by industry during the depression decade since 1929. New products, better products, new adaptations of old materials, better methods of distribution—in all these directions industry has moved far ahead to the benefit of the consumer at the very time some people have accused industry of holding back recovery.

PAUL GARRETT,
Director of Public Relations,
General Motors Corporation.

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Abstracts and News Items

GENERAL MANAGEMENT

Population Going Down

There are more than a million empty desks in the elementary schools of America this year. If present trends in population continue, by 1960 there will be 10,000,000 empty desks in schools and colleges. But by 1960 the army of people over 65 will be 8,000,000 greater than it was in 1930.

The curve of American population, after 300 years of unprecedented growth, is now rapidly leveling off. The death rate has dropped to its minimum, immigration has all but ceased, the emigration rate has grown, while births have fallen from 37 per thousand in 1875 to 17 per thousand in 1935. Today we are confronted with a massive and irreversible trend in human fertility which affects not only the United States but all the western world.

Though the handwriting has been on the wall for some time, few have stopped to read it. It was not good reading for those who were counting on bigger markets, higher skyscrapers, fancier prices for subdivisions. But the zero hour is only a few years ahead, and presently not only will the growth rate disappear *but there will actually be fewer inhabitants on the continent.*

What is the bow-shaped population curve going to do to us here in America? Industrial changes will be profound, and to a degree painful. All industries catering to the aged will be stimulated. Manufacturers of infants' goods—and eventually of youths' and misses' goods—must prepare for a slackening demand. The milk industry—in which children are the chief consumers—is in for some painful readjustments.

As population ages, firing at 40 will tend to be modified, and special provision be made to retain, and if necessary retrain, older industrial workers. Group insurance may disappear. The mobility of labor may decline, also labor turnover, as personnel is drawn from stable persons with settled habits.

Business men, bankers and economists are agreed that under the present financial system an expansion of capital goods—meaning new mills and stores

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—is cardinal in order to put savings to work and keep the system in equilibrium. But, as population becomes stationary, it is obvious that the need for such expansion will be greatly reduced. *Replacement* rather than *expansion* will become the basis of future capital goods production.

The population curve promises to remake our economic system as we pass from an era of growth to an era of maturity. But, in the long run, the outlook for higher living standards and a more integrated democracy is bright. By Stuart Chase. *The Atlantic Monthly*, February, 1939, p. 183:10.

Three Mistakes to Avoid in Building a Public Relations Program

As one who has bummed around a bit with the intelligentsia and the unintelligentsia, I am getting a bit fed up on the phrase "public relations." It's getting so now that I have to read at least three speeches or tracts on the subject a week. Then the speeches are reprinted in booklet form by their proud authors and sent around some more.

Now I shouldn't say that all these learned dissertations are hog wash, but, frankly, all too many are. "Business has an opportunity," "business must tell its story," "the American way of living," "reaching the public," "educating the wage earner," "sell your industry," "the consumer is king," "as wise old Alexander J. McNutt once said"—aw nuts! I am not usually ambidextrous, but I'll guarantee to ghostwrite two speeches on the subject at one time and will sell them for $2.98 apiece, to be delivered, solemnly and with an air of infinite wisdom, before any convention, it doesn't matter which.

I think many of us are making three big mistakes in this public relations business.

Number one: We are trying too hard. "Methinks he doth protest too much." We send out releases, we fill paid white space with a raft of statements about how good we are, how kind, how paternal, how we are really the white-haired boy. It gets a bit on the mawkish side—and Americans don't like or believe that. Let's take it easier. Do as we would be done by. Pay honest wages. Manufacture the best articles we can at the price. And use that white space to sell our goods.

Number two: We talk to the wrong people. I have seen a beautiful advertising campaign directed to the working class run in four colors in a magazine that sells for a dollar a copy. I have seen stacks of tracts in eight- or ten-point type sent to leading industrialists who haven't got time to read them in the first place and don't need to be convinced in the second. If you've got something to say to the people who read a tabloid newspaper, for the luva Mike use the tabloid! If you want to talk to the people who read a pulp magazine, use it! And by all means, if you have something to say to the people in your own shop, *you* say it to them: don't tell it to your secretary to tell it to a public relations expert to tell it to your workers.

Number three: We are too prone to

hire an expert, turn our "public relations" problem over to him, and forget the whole business. "Public relations? Oh, I don't pay much attention to that. Hired Wilberforce F. Gosdale, the big New York expert, and put it all in his hands." That just won't work, gents. It's *your* job, a humble job, albeit an important one. I don't care whether the expert you engage has access to all your books, your formulae, and your family skeletons—it's *your* company; and your workers, your townspeople and your public are looking at *you*. You can't buy salvation. You can't hire a man to save your soul. By George Scholefield. *Printers' Ink*, January 19, 1939, p. 21:3.

Progress and Problems of Research

Business depressions cause the birth rate to drop, but the recession last year didn't have much effect on the birth rate of test-tube babies in some 1700 American industrial research laboratories. In spite of the recession, expenditure for research in 1938 is estimated to have been above 1937's total of $250,000,000. The result was that many new products were developed last year, or their development was culminated after years of research.

On the horizon in 1939 is the completion of the Rust brothers' new plant in Memphis for the manufacture of their famed cotton-picker, a machine which has important labor and social implications for the South. Last year witnessed the development by duPont of *nylon*, a superfine silk-like fiber heralded as a competitor of the natural Japanese silk. The dairy industry also has contributed a new wool-like fiber made from casein, a component of milk, somewhat similar to the *lanital* developed in Italy. An important advance in illumination was marked by General Electric and Westinghouse's fluorescent lamps; using 60 per cent less electric power, these lamps emit a cool light similar to natural sunlight. In the petroleum industry a new refining method utilizing catalysts was perfected which is said to obtain 85 per cent of gasoline from crude oil, compared with the 45 per cent average under present conditions.

The growth of American industrial research appears to be reasonably fast. In 1923 there were 500 industrial laboratories; this year there are about 1700. Several European countries, however, outstrip us in personnel, and have the advantage of being able to coordinate research on a broad-scale, long-term basis. While some 30,000 researchers are busy in American laboratories developing new products, it is estimated that Germany has 70,000 and Russia 100,000.

New products are of prime necessity to the growth of companies in certain fields like chemicals. In the case of duPont, for example, 12 new lines which were developed largely during the last decade accounted for about 40 per cent of total sales during 1937.

But not all research is aimed at new products. An analysis of the research programs of some 800 companies which was made several years ago indicated that 31 per cent of all invest-

ment in industrial research is directed toward reducing production costs; 34 per cent, to improving the quality of products and service; 20 per cent, to developing new fields of application; and the remaining 15 per cent, to developing new products. However, the trend at present is undoubtedly toward a greater investment in research for new products. By Charles Macko. *Barron's*, January 9, 1939, p. 33:1.

The Decline of American Directorates

In many of the larger American corporations, the director who exercises independent judgment on corporate problems has become little more than a myth. What we frequently have today is a large majority of inactive directors dominated by the management officials who are members of the board or by others representing special interests. Because their knowledge of the business is so superficial, these directors have become little more than ratifiers. And with the decline of their power, the interests of the stockholders have been seriously menaced.

What was designed as a position of great responsibility is in danger of degenerating into a position of mere routine. The average modern director does not direct the course of the corporation to a much greater extent than a conductor directs the course of his trolley-car. Both of them go along with the vehicle, but one of them is often present merely for the sake of the ride.

It is only fair to the inactive directors, however, to point out that perhaps the corporation should not expect to get more than it pays for, and that it pays its directors a very small "honorarium" indeed. In the final analysis, if directors are to perform their duties honestly, efficiently and constructively, they should get paid for their work in proportion to the actual contributions made by them. When corporations so often attempt to get something for nothing, it is small wonder that the directors are sometimes tempted to collect invisible rewards, to make use of their inside information, their market tips, their banking connections, and otherwise to serve themselves rather than their stockholders.

Furthermore, we should have smaller directorates; where a large directorate is deemed advisable because of the size of the company, the executive committee should be on a full-time basis or nearly so. Nothing more clearly reveals the extent to which American business practice deviates from corporate theory than the Directory of Directors. That volume discloses the American phenomenon of multiple directorships carried to ridiculous lengths. Not very long ago a prominent financier was shown to have had over 50 directorships.

We can get more efficient directors only by putting them on a salaried basis. The paid director would have no business interest other than serving on the boards of a few corporations. He would acquire a thorough knowledge of these corporations and would

sit as a representative of the investing public. He would, of course, be elected by the stockholders. And his influence would, I believe, be immeasurable.

What I propose is not a legislative program but a program for industry itself. The problem of working out the paid-director plan would of course present many details. However, there should be no lack of capable, experienced men to enter the new profession of full-time director. By William O. Douglas, Chairman, Securities and Exchange Commission. From an address delivered before the Fort Worth Clearing House Association, January 9, 1939.

OFFICE MANAGEMENT

A Letter-Writing Bureau to Save Executive Time

Executives, buyers, department heads and other busy officers of a large West Coast department store do not have to stop planning, buying, selling or other important executive tasks to dictate routine correspondence. Instead, a correspondence bureau handles this work for them.

Using a simple printed form provided for the purpose, these executives simply write brief notes, outlining the gist of what they want to say in a letter. These notes, when passed on to members of the store's correspondence bureau, are quickly and efficiently composed and written, the result being a well-planned letter, certain to conform with store policy and regulations.

For example, an executive may jot down, "Ask them why our shipment is delayed," attaching an acknowledgment of an order. The clerk in the correspondence bureau turns this note into a letter, takes care of the filing, the signature, and all other necessary steps in putting the letter into the mail.

Secretaries are used in only three executive offices; all other stenographic work is transacted through the correspondence bureau.

Experience with this plan indicates that many other businesses could use it effectively to save executive time. By Mandus Bridston. *American Business*, January, 1939, p. 31:2.

Noise in Industry

It should almost stand without proof that noise in offices and factories is definitely injurious to the health and morale of the workers and that under noisy conditions their accuracy and output are measurably decreased.

A few years ago tests were made of typists' efficiency under 50 decibels of noise and again under 35 decibels. It was discovered, in general, that the typists consumed approximately 19 per cent more energy in a noisy room

and that their productivity improved about 5 per cent in the quiet room. In another instance, laboratory tests revealed that when a complex noise was reduced from 50 to 40 decibels, there was a 30 per cent increase in the speed of persons multiplying three-place numbers by three-place numbers.

When the assembly department of a temperature regulator company was moved from next to a noisy boiler shop to a quiet location, rejections were reduced from 75 per cent to 7 per cent, and average output rose from 80 to 110 units. In another department, removing the noise of a ventilating fan increased production 12 per cent.

Noise can be eliminated or minimized in most places where it is economical to do so. The best method is the direct one of cutting down vibration or eliminating the noise at its source—e. g., using noiseless typewriters, quiet fans, quiet motors. Another means of quieting is to isolate noisy machines or other types of noise producers in a particular area and then build sound-insulating partitions which will exclude the noises from other workers. Still another indirect method of quieting is the use of sound-absorbent materials, which can decrease loudness from 30 to 70 per cent. Even carpets will absorb about 30 to 40 per cent of the sound that strikes them.

In some types of noisy work, the most practical means of lessening some of the ill effects of noise is the direct insertion in the ear of noise deflectors. These are made of plastic materials or various kinds of rubber. Some deflectors, however, are harmful, and in many cases the best protection will be afforded by plugging the ears with cotton and vaseline. By Robert Lindahl and Dr. Carey P. McCord. *Industrial Medicine*, November, 1938, p. 664:6.

Transfer Without Trouble

While transfers from active to inactive files offer few theoretical difficulties, they have nevertheless become the bane of office management. Too frequently, in offices where the transfer of files is periodical, the movement of papers from the current to storage filing systems rivals the confusion attendant to housecleaning in a private home.

Contents of the active files should not be moved to storage or semi-active files until they begin to crowd the files to the point of inefficiency. Arbitrarily assigning times of transfer (such as every January, for example) is not conducive to maximum filing efficiency unless the times of transfer are frequent. When transfers are made periodically (say, every year) the current files are only partly filled in the first six months and overcrowded during the remaining half-year. Some firms have solved the problem by an irregular system of transfer, moving the contents, or part of the contents, of a folder or compartment to the storage files when the folder or compartment becomes crowded.

Unless the storage files are as accessible (or nearly so) as the current files, auxiliary (or semi-active) files

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or some system of carry-over commonly become necessary. Double-capacity files are in many cases an excellent solution of the problem. Under this system there is a corresponding file for every current file. For example, the second or semi-active file would contain material of 1938 dates, while the current file would be devoted wholly to 1939 material. At the end of the year the current file is moved to the auxiliary position, and the former auxiliary file is transferred to the storage compartments. Usually the semi-active file is located directly below the current file.

When transfers are made from the active files, each paper should be scrutinized for its value and discarded if possible. Length of usefulness of each paper stored should be marked on it plainly before it is inserted in the storage files. By James L. Tiller. *Business Management*, January, 1939, p. 16:2.

PRODUCTION MANAGEMENT

Industrial Economics: *Labor and Capital, Legislation, Wage Theory, Migration*

Incomes from Independent Professional Practice

According to data compiled by the U. S. Department of Commerce, consulting engineers received the largest average income from independent professional practice during the years 1929-1936, with certified public accountants, lawyers, physicians and dentists following in that order. These five groups include the great bulk of independent professional practitioners.

Over the period 1929-1934, certified public accountants averaged about $5300 annually from independent practice: physicians, about $4100; and dentists, $3100. Because of deficiencies in the data, similar figures for the other two professions are not available.

The temporal changes in average income are very similar for all the professions except consulting engineering. In the other four professional groups, average incomes declined from 42 to 48 per cent between 1929 and 1933. These are about the same percentage declines as those experienced on the average by all gainfully occupied workers. Consulting engineers, on the other hand, suffered a decline of 74 per cent by 1932, the last year for which data were available for this profession. Average incomes in all the professions for which data were available rose from 1933 to 1936, the gains ranging from 20 to 38 per cent.

The differences among individuals in the amount of income received are greatest in consulting engineering, much less in law and medicine. Partic-

ularly interesting are the statistics for medicine and dentistry. These suggest that an individual is more likely to receive an exceedingly high income in medicine than in dentistry; but also, he is more likely to receive an exceedingly low income in medicine than in dentistry. By Simon Kuznets and Milton Friedman. *Bulletin 72-73*, National Bureau of Economic Research, February 5, 1939. 32 pages.

Destroying the Prosperity Formula

From the beginning of our machine age, American industry has progressed by making constant gains in efficiency through the use of more power and better machinery, greater output per man-hour, higher wages and lower prices. But today this prosperity formula is being sabotaged by a number of forces which work in unison, though not in combination.

One force working to negate the formula is politics and its hesitant hovering between a philosophy of scarcity and a philosophy of plenty. Part of the sabotage is due to the communists' program to wreck capitalism; part, to the mistakes and shortsightedness of management. By far the most important factor, however, is the worker depression-psychology which has been engendered by the thought of the 9,000,000 unemployed and the fear of joining their ranks.

That this fear is a real one which is having a tangible effect on the operation of our economy is evidenced by the phenomenon of the "slowdown." In the old days, when power machines were introduced, men threw wooden shoes into the gears to wreck them because they thought machines were depriving them of jobs. Today the American workman uses the slowdown to get even with the machine. This slowdown, which is occurring in a number of localities, does not apply to old machines so much as to new ones.

Here is how it works:

An inventor or tool designer devises a machine that will operate, say, 20 per cent more efficiently than those in use. The machinery manufacturer sells this machine to a customer as a cost-saving device. However, when it is installed, the new machine produces exactly as many units a day as the old one.

Whereupon telephones ring, and frantic calls go out for a demonstrator to show that the maker's guarantee can be met. The demonstrator achieves the increased output readily but, when he goes, production returns to the old level.

This phenomenon is not necessarily attributable to trade union policy, since it exists in plants where there are no unions. Even where management has guaranteed its workers an annual income, the fear of the machine seems to remain, and workers are careful not to exceed the rate of productivity previously established.

Management, through acts of both commission and omission, is largely responsible for the present worker psychology. It has thus far failed to interpret the formula of efficiency gains and their beneficial results to

labor and to the public. If the slow-down is permitted to spread far enough, it will freeze us into a *status quo* and may even result in economic retrogression. By John H. Van Deventer. *Nation's Business,* January, 1939, p. 23:4.

Steel Employment Tops Output

Steel companies kept approximately 155,000 more wage earners on the payrolls during the first nine months of 1938 than would have been at work if employment in the industry had dropped as sharply as output, according to estimates of the Iron and Steel Institute. This was accomplished largely because of the industry's employment policies.

While production of ingots and finished steel in the first three quarters of 1938 was 56 per cent below the tonnage produced in the like 1937 period, the number of wage earners employed dropped but 26 per cent in the same nine months. Three hundred eighty-five thousand persons were employed on the average in the nine months of 1938, compared with 521,-000 in the 1937 period. Only 230,000 employees would have remained at work had the drop in employment equaled that shown in production.

Wages declined more sharply than employment but not so severely as the drop in production. For the first nine months of 1938, steel employees paid on an hourly, piecework or tonnage basis received a total of $322,227,000, or 49 per cent of the $658,298,000 paid in wages in the corresponding 1937 period.

Wage-earning employees averaged a work week of 26 hours during this period, as against 39½ hours in the first nine months of 1937.

Among the factors tending to retard the decline in payrolls was the fact that a greater proportion of 1938 production consisted of "light" steel products. More man-hours are required to produce a ton of "light" products than a ton of heavy products. Another factor was emergency or made-work, usually of a non-productive nature, which sometimes could be provided for employees. *Commerce,* January, 1939, p. 8:1.

Mechanization and the Five-Cent Cigar

Less than 20 years ago cigar making was classified among the most highly skilled occupations in the United States. As a result of the invention of the long-filler machine in 1919 and the almost simultaneous development of the short-filler machine, 44,000 skilled cigar makers had been separated from the cigar industry by 1935 and their places had been taken by approximately 17,000 new workers, mostly unskilled women operators.

A recent study of labor productivity in the cigar industry shows that the labor time per 1000 five-cent cigars was reduced from about 33½ man-hours under the hand process to slightly less than 16 man-hours with the long-filler machine. In the case of short-filler cigars, the reduction has

been from 27.8 man-hours to 12 man-hours per thousand.

Between 1921 and 1929, earnings of workers in the cigar industry averaged about $800 per year. After 1929 the average annual earnings began to decrease rapidly, reaching a low level of $551 in 1933. In 1935 the average rose to approximately $598.

The volume of cigars produced in the United States declined from 6,730,000 in 1921 to 4,690,000 in 1935. Thus the reduction in the demand for cigar workers due to improvement in the process of manufacture has been further aggravated by this tremendous drop in consumption. *Labor Information Bulletin,* January, 1939, p. 11:3.

A Study in Disability Experience

A study of the disability experience of the Boston Edison Company, covering the five-year period 1933-37, revealed that the average annual number of days of all absences from disability lasting one calendar day or longer was 7.5 for males, as compared with 10.9 for females.

The frequency rate of colds for females (403.4 per thousand) was nearly twice that for males (216.7 per thousand); and the average annual number of days of disability from this cause was 1.1 for females, compared with 0.6 for males. Influenza and grippe caused the largest time-lost rate—1.2 days for males and 1.7 for females. With the exception of industrial accidents, the frequency of each disease or condition tabulated was greater for females than for males.

With respect to severity, the average number of days per absence for colds was approximately the same for males (2.8 days) as for females (2.7 days).

Respiratory diseases (which included influenza and grippe, colds, bronchitis, and diseases of the pharynx and tonsils) accounted for 42 per cent of the total days lost, and for 57 per cent of the total number of absences. Industrial accidents accounted for only 5.2 per cent of the total days lost, and for 1.4 per cent of the total number of absences. *The Conference Board Management Record,* January, 1939, p. 7:1.

Union Scales of Wages and Hours in the Printing Trades

The average hourly wage rate for union printers in 72 cities was $1.186 on June 1, 1938, according to the annual survey by the Bureau of Labor Statistics. The average full-time week was 39.3 hours. Over 70 per cent of the union members received wage increases between May 15, 1937, and June 1, 1938, the average increase amounting to 3.1 per cent. *Monthly Labor Review,* December, 1938, p. 1360:20.

New Wage Trend

Since mid-December, more companies have adopted annual-wage plans than in any other similar period in industrial history. Two of the latest recruits are Armstrong Cork Company of Lancaster, Pa., and A. I. Namm & Son, Brooklyn department store.

The Namm program covers the 90

per cent of the company's 1300 regular employees with one year or more of service. The minimum amount of work guaranteed per year ranges through 40, 44, 48 and 52 weeks, depending on the employee's length of service. Cost is expected to be low; if the plan had been in effect last year, the company points out, only 11 regular employees would have been paid for more work than they actually performed.

At Armstrong Cork, the standard work week is 40 hours. Under the new plan, hourly-rated workers with a year or more of service will be paid for a minimum of 24 hours of work per week, whether they actually work or not. The amount of "make-up" pay allowed during the year, however, is limited. It totals 54 hours for one-year employees and goes up to 120 hours for 10-year employees. Another feature of this program is a wage-advance plan, through which employees who have served the company five years or more can borrow against future wages when they are laid off. The non-interest-bearing loan is repaid when the employee gets his job back. *Forbes*, February 1, 1939, p. 17:2.

Wage Structure in Cotton-Goods Manufacture

In August, 1938, about one-tenth of the workers in cotton-goods manufacture were receiving less than the minimum of 25 cents per hour fixed by the Fair Labor Standards Act, which went into effect in October. Practically all were in Southern mills.

At the same date approximately one-fifth of the workers in the industry were receiving less than 30 cents per hour, while nearly 70 per cent were receiving less than 40 cents. In Northern mills there was a heavy concentration at rates of 32.5 to 35 cents an hour; in Southern mills, at 30 to 32.5 cents. These figures are derived from a special survey by the Bureau of Labor Statistics. *Monthly Labor Review*, December, 1938, p. 1239:11.

The Negro Woman Worker

One in every six women workers in America is a negro, according to the latest census figures—those of 1930. In all, nearly 2,000,000 negro women were classed as gainful workers at that time. About nine in every 10 negro women were engaged in agriculture or in domestic and personal service, with more than two-thirds of them in domestic and personal service. Practically two in five negro women, in contrast to one in five white women, worked for their living.

The industries the census classifies as "manufacturing and mechanical" rank third in giving jobs to negro women, but the number so employed was only 101,000 in 1930. Negro women in what may be termed "white-collar occupations" totaled but 91,600, or about 5 per cent of the negro women gainfully employed. In contrast, 56 per cent of all gainfully occupied white women of native birth were white-collar workers.

Today, though there are no complete statistics on unemployment for the

country as a whole, it is certain that the plight of negro women workers since the beginning of the depression has been an exceedingly serious one. In an FERA survey of persons on relief in 40 urban centers as of May 1, 1934, over two-thirds of the approximately 150,000 women who described their usual occupations as those of servants and allied workers were negro. In a comprehensive study of unemployment in Louisville, Ky., in the spring of 1933, it was found that a little over one-half of the negro women, in contrast to less than three-tenths of the white women, were without jobs.

The disparity in employment of negro and white women has taken deep root in the social and economic structure during the past decades, and only untiring effort on the part of negroes themselves, aided by the nation's socially minded citizens, will succeed in eradicating it. By Jean Collier Brown. *Bulletin No. 165*, Women's Bureau, U. S. Department of Labor. 17 pages.

Non-Industrial Injuries Among Male and Female Industrial Employees

A small but consistent excess in the rate of non-industrial injuries among female industrial employees was found for all companies and for 11 companies which reported to the United States Public Health Service for the entire period 1925 through 1937.

No definite trend through all the years is apparent. The female maximum rate of 15.6 injuries per 1000 was reached in 1927 and the minimum rate of 9.7 was recorded in 1933. Corresponding rates for males were 12.2 in 1929 and 8.5 in 1936. The greatest excess in the female rate, 67.7 per cent, occurred in 1927, while the smallest excess, 3.5 per cent, was registered in 1930.

For one company, an analysis of all non-industrial injuries which lasted eight days or longer revealed that the difference between male and female rates was largely due to a relative excess among females of injuries to the lower extremities and injuries to multiple parts of the body. The frequency of injuries was shown to vary according to age as well as sex. The injuries were found to be less serious among females than among males, while the average number of days lost per case was slightly greater for the former. When a company which reported disabilities lasting from one to seven days, inclusive, was selected, the relative excess of female cases became considerably greater.

It appears from this study that, for the companies reporting, females were absent from work more often and for a longer time because of non-industrial injuries than were males. This does not necessarily indicate that females are more prone to such injuries, as other factors, such as a different psychological attitude toward injuries, or a different attitude toward regularity of attendance at work, may play a part. By Hugh P. Brinton. *Public Health Reports*, January 6, 1939, p. 6:11.

Progress Under the Fair Labor Standards Act

The Bureau of Labor Statistics reports that about 35,000, or approximately one-tenth, of the workers in cotton mills in the United States received wage increases as a result of the minimum-wage provision of the Fair Labor Standards Act, which requires the payment of at least 25 cents an hour for the first year of the law's operation. Almost all the workers benefited were in southern states. It is likely that a considerable number of these were women, since about two-fifths of the workers in this industry are women and since many studies have shown women to be the lowest-paid workers.

The passage of the Fair Labor Standards Act is also credited with raising the wages of more than 3000 Texas home workers 400 per cent. As the result of a union agreement between the infants' and children's dress manufacturers of San Antonio and an industrial union, Texas women who embroider children's dresses at home must receive at least 25 cents an hour, compared with the 5 to 7 cents they formerly received. All workers must be union members, and piece rates will be set by the union and shop management jointly. The contract also provides for the gradual abolition of the industrial home-work system in the embroidering of women's clothes in the state of Texas. *The Woman Worker*, January, 1939, pp. 3 and 10.

Benefit Systems and Incentives: *Pensions, Profit Sharing, Suggestions, Vacations, Stock Ownership*

Workers Finance Armco Village

Simple but ingenious is the plan for financing Fertile Valleys Homesteads, garden village of steel homes, to be erected near Middletown, O., by American Rolling Mill Co. employees.

The 60 employees who will purchase the homes will be sole common stockholders in a building company, Operative Homestead Builders, Inc. The building company will buy the land and arrange with contractors to erect the homes, water and sewage systems, streets and other improvements. When the village has been completed, the building company will be dissolved and the stockholders will be paid book value for their stock, including all profit. Purchasers then can use the profit received to make part of the down payment when applying for an FHA loan on the home.

The community will be entirely self-governed. Each homestead purchaser will become a member of a community association, which will make and enforce necessary restrictions and regulations.

The houses will be of fire-safe steel

construction, and prices will range from $4500 for a two-bedroom house to $5300 for one with three bedrooms. Each will be surrounded by an acre of fertile gardening land.

Charles R. Hook, Armco president, declares that the idea was suggested by the employees. "What we are actually doing is helping our employees help themselves." *Steel*, February 6, 1939, p. 23:1.

A Successful Profit-Sharing Plan

Under a long-established profit-sharing plan of the Wooster Brush Company, every one of the company's employees knows he will receive a share, in proportion to his earnings, of a sum representing 15 per cent of the year's net profits after payment of 50 cents a share on common stock.

This company was a pioneer in group life insurance. Since 1919 it has paid all premiums on employee policies. This is supplemented by an employee sick-benefit plan, by incentive bonuses for skill and accuracy, and by annual vacations at full pay.

Recently a minimum guaranteed wage plan was instituted to give employees an increasing sense of security. The minimum wage took the place of a monthly bonus of 10 per cent—over and above the yearly bonus—which had been paid since 1932 in any month in which the company showed a profit.

Walter R. Foss, president of this concern, reports that the minimum guarantee has proved even more acceptable than the monthly bonus. Turnover is a thing unknown to this plant. Last year all its 132 employees participated in the bonus. *Factory Management and Maintenance*, February, 1939, p. 43:1.

Profit-Builders

Last month, two companies in the Midwest reported profit-sharing plans with new and distinctive features.

George A. Hormel & Co., Minnesota meat packers, began an experiment in dividing profits between workers and stockholders. Hormel's plan calls for a "joint earnings account" on its books, created by totaling all wages, salaries and bonuses paid to the Austin plant's workers along with all profits earned by the plant. If the workers' share at the end of the fiscal year exceeds the pay they have actually received, they will divide the difference with stockholders on the basis of 80 per cent for workers, 20 per cent for stockholders. "We use that proportion," explains President Jay C. Hormel, "because wages and salaries always did amount to a great deal more than the earnings on the common stock." When employees receive four weeks' additional pay under this plan, the amount left over will be divided with stockholders on a 50-50 basis.

Jewel Tea Company of Barrington, Ill., announced the "Jewel Retirement Estates Plan," a combined savings and profit-sharing trust fund for rank-and-file workers based on employee contributions and company profits. This program relies on voluntary employee contributions of $1 to $4 a week, supplemented by a company contribution

of all net profits in excess of $3 per share of common stock. To start the plan going, the company has already deposited more than $80,555 in the trust. Workers may retire voluntarily at the age of 57, or automatically at 65, on a nest-egg made up of the joint contributions. Should they leave before retirement, death or disability, they will be paid on a percentage basis —from 3 per cent for one year of deposits to 90 per cent for 20 years and over. *Forbes,* February 1, 1939, p. 33:1.

Medical Aid Under Workmen's Compensation Laws

Injured workers usually receive full medical care in many of the states under the law or the current practice, and in all but one of the provinces of Canada having workmen's compensation acts this is required by the statutes. In two-thirds of the states amendments are necessary if full medical aid is to be put upon a basis of right instead of being partly dependent upon the good will of employers and insurers.

The promptness and competence of medical aid depend largely upon supervision. Indications are that because of deficient public supervision heavy losses and unnecessary suffering are sustained. Improved supervision by the compensation commissions depends upon adequate support and staffing and also upon the adoption of personnel policies under which the officers and employees are selected on the basis of qualifications for their difficult technical tasks and are retained during efficiency. By Marshall Dawson. *Monthly Labor Review,* January, 1939, p. 25:22.

Training and Education: *Schools, Libraries, Employee Publications*

Helping Employees Go to School

It is the practice of the All-Steel-Equip Co., Aurora, Ill., and its subsidiaries to subsidize employees in learning trades and in training for specific occupations. Several plans are offered, and a limited number can enrol in each.

Plan No. 1: Young men from 18 to 22 years of age may learn a trade or train for an occupation by enrolling with the International Correspondence Schools and attending public school on Saturday mornings. They pay for the courses in cash or monthly instalments, but the company pays them at regular hourly rates for the hours spent in study. These students are called indentured apprentices.

Plan No. 2: Under a cooperative arrangement with Armour Institute of Technology in Chicago, young men who qualify may work eight weeks and

go to school the next eight weeks. The company guarantees minimum weekly earnings of $15.

Plan No. 3: Adult men in key positions and other promising employees are encouraged and subsidized to train for a specific occupation. To this end they may (a) attend Armour Institute of Technology in the evenings, (b) attend Northwestern University of Chicago in the evenings, (c) become International Correspondence Schools students, or (d) attend a local college.

The adult man enrolling for a course on the No. 3c plan enters into contract with the school for a certain course to be paid for in cash or by time payments. For each lesson the student completes, he receives a check from the company equal to or approximately 50 per cent of the average lesson cost. When finished with the course, the balance of the cost of the course is paid in a lump sum to the employee.

About 5 per cent of all the concern's employees are subsidized under these plans, and as many more are believed to be undertaking voluntary courses. By A. F. Erickson. *Factory Management and Maintenance*, January, 1939, p. 66:2.

The Cost of Apprenticeship

Apprenticeship involves so many intangibles that it is seldom discussed calmly and frankly in terms of cost by executives who have the power of decision. Thus no general figures appear to be available on the cost of apprentice training.

Recent experience at The Warner & Swasey Company, of Cleveland, indicates that an effective training program can return a quantity of productive work sufficient to support and immediately justify the expense entailed. Since the reestablishment of this concern's 51-year-old training program after a three-year interruption during the depression, it has not added a dollar to company expense. Apprentices, averaging 45 in number, have been producing more than enough in the shop to pay their own wages (an average of 45 cents an hour) for four hours of school time as well as 36 hours of shop time each week. Their actual production also covers the expense of supervisory salaries, and of special tuition at the Case School of Applied Science when work is slack. The company feels that it could even charge a portion of foremen's salaries to the program in recognition of the time spent in assisting apprentices, and still break even.

Careful analysis of shop performance has developed the fact that a 9 per cent loss in output results from the lower efficiency of trainees; however, the calculation takes this into account. Allowance has also been made for the loss in overhead on all equipment in use by apprentices.

The most important elements of such a self-sustaining program are: (1) an analysis of all the potential contributions of apprentice training to the company concerned; (2) careful selection of trainees; (3) careful analysis of shop-training opportunities available for the gradual development of skills; (4) a thorough understand-

ing of related subject matter which trainees must learn to meet the requirements of the particular employer; and (5) a recognition of the need for training in broader social and economic fields. By Warner Seely. *Mechanical Engineering*, December, 1938, p. 901:3.

Business Men Teach

During December, a ringing cowbell in Garden City, N. Y., called employees of the Shell Union Oil Corp. to the last 1938 session of the company's "traveling school."

Shell has spent nearly $1,000,000 in the last four years developing this school, which was organized to give employees a working knowledge of the entire business. "Graduates" not only work more efficiently; the company also finds them more fully equipped for promotions.

Since October, 1937, Dr. G. P. Koch, research chemist turned teacher, has been touring Eastern states in a specially designed truck, giving three-week courses open to most employees who come in contact with the public and to many others who do not. Specially selected groups of 50 workers are granted leave of absence from their jobs, and report to the school for three weeks of intensive textbook and laboratory training. The instruction embraces technical aspects of the industry, public speaking, personality development and health habits. When the employees complete the course, Shell claims, many of them feel it's "a college education in three weeks." *Forbes*, January 1, 1939, p. 16:2.

MARKETING MANAGEMENT

Instalment Selling: A Critical View

A very real necessity exists today for sound and permanent control of instalment selling, undertaken by the instalment field itself.

The automobile finance industry, which accounts for the majority of the nation's instalment buying, well exemplifies the dangerous relaxation of instalment terms that has developed in the course of the last decade. As to both down payment and length of instalment contract, there has been an extension beyond limits generally recognized as sound even by the automobile finance associations.

Figures of the National Association of Sales Finance Companies for 1937 show that 9.4 per cent of the total cars sold were repossessed. This figure understates the gravity of the situation, because only as a last resort will an instalment buyer suffer repossession of the property he has acquired. If 9.4 per cent of cars were repossessed in 1937, it is safe to assume that from

25 to 30 per cent of instalment buyers have found themselves in acute distress.

It is sometimes claimed that the consumer is well able to judge his own financial position and not overextend himself. But, of two studies recently prepared for leading finance associations, one indicated that about 68 per cent of repossessions occurred after only one instalment payment had been made; while the other showed that 26.5 per cent of repossessions took place before *any* instalment payment was made, and an additional 21 per cent, after only one payment. These surveys indicate that the causes which led to repossession existed when the obligation was incurred, and expose the myth of consumer self-control.

Aside from the problems of instalment terms, there are equally grave economic and social implications in the costs of instalment financing. Various studies indicate that, on the average, additional costs probably are around 20-25 per cent when compared with the cash prices of the items. The question is whether the masses can afford to expend an additional 25 per cent for financing charges, or whether they need every penny for the actual necessities of life.

This is no quarrel with the principle of instalment selling, but rather with the practical abuses of that principle, which have been causal factors in initiating an economically unsound chain of events. First, these abuses have stimulated a greater than normal velocity and amplitude of fluctuation in certain key industries, particularly automobiles. Second, instalment sales decline more rapidly than open credit or cash sales in periods of business contraction, and conversely show the greatest increase in periods of expanding business activity. Moreover, the rapid gain in instalment sales is a factor which lessens the rate of gain in other types of sales. This induces competition on the basis of liberality of instalment terms, resulting in the extension of instalment selling to new fields, such as soft goods; and it thus accelerates the tempo of both up and down business movements. By Julian D. Weiss. *Harvard Business Review*, Autumn, 1938, p. 96:9.

Verdict on the Chain Stores

The dissolution of chain stores is supposed to be a popular cause and a politicians' delight. However, *Fortune's* latest Survey disproves this concept and shows a considerable change in public opinion since it first inquired into the subject about two years ago.

In January, 1937, more than half of the public said it generally bought some of its groceries at chain stores, mainly because the prices were better. But more than half of the whole public (56 per cent of those with opinions) declared itself in favor of taxing the chains to put them on a price parity with the independents. Now the pattern has changed, and a plurality (47.9 per cent) directs that chain stores be let alone and allowed to make what profits they can. Today only 37.3 per cent of the public believe that chains should be taxed extra to compensate

for the buying advantages they are supposed to have over independent stores. Only 6.3 per cent want them put out of business, which has been precisely the purpose of the "popular" legislation, recent or pending.

The sands have suddenly shifted from under the feet of the Honorable Wright Patman, and there may be several factors to account for it. One may be a general nostalgia for "normalcy" and for returning to a policy of letting business go its way rejoicing. Another may result from the actual closing of thousands of chain stores during the past few years and the dislocation of the buying habits of their price-conscious customers. And a third reason for the change may be the effect of publicity, which the chains have been employing in self-defense. To such a campaign was credited the conversion of an adverse majority in California in time to defeat by referendum an anti-chain-store tax bill that seemed at the point of adoption.

Breakdowns of figures in this *Fortune* Survey show that the belief that the chains should be left alone is fairly universal in the United States, geographically, economically, and by size of place. It is hardly astonishing that women, who do most of the nation's shopping, are 8 per cent fonder of the chains than are men. *Fortune,* February, 1939, p. 88:2.

Legislating Against the Consumer

The average New Yorker, accustomed to brushing his teeth at least once, and usually twice, daily, is now paying, for the comfort of mouth cleanliness, from 20 to 30 per cent more than he paid two years ago. A tube of toothpaste that cost him 19 cents in most stores only a few years ago sells for from 27 to 29 cents today. Prices of many other nationally advertised products are up proportionately.

However, the factory prices of the articles in question have changed little, if at all. The added burden to pocketbooks is due entirely, or almost entirely, to "fair trade" laws that, in effect, permit the least efficient and highest-cost retailer to set the retail price for an entire city and state, and that compel the efficient low-cost retailer to mark up his price to the higher level, under penalty of heavy fine. This legislation, designed ostensibly for the protection of the public, has apparently misfired and made us not beneficiaries but victims. And there are further such laws contemplated.

Q. Forrest Walker, economist for R. H. Macy & Co., one of New York's largest and best known department stores, is authority for the statement that the law has forced that store to take mark-ups of 39.6 per cent on cosmetics, 36 per cent on liquor and drugs, 41.3 per cent on books, and 37.6 per cent on a group of miscellaneous articles—mark-ups which the store, selling for cash only, considers unreasonable.

It is true that only a very small percentage of goods sold are affected as yet by the so-called fair trade measures. But, the principle once estab-

lished, what's to prevent eventual application to everything we buy?

That retail price-fixing under these acts has affected so far only a small proportion of commodities sold to the public appears due largely to the fact that many manufacturers are loath to enter into price-fixing contracts. They realize the possibility—an obvious one—that it opens the door to increased competition and invites retailers to encourage sales of other brands or to develop competing brands of their own. In this lies the hope to the consumer that retail price-fixing, instead of growing, will diminish, and that the "fair trade" acts will lapse into innocuous desuetude. By Arundel Cotter. *Barron's*, January 9, 1939, p. 28:2.

What Happens to Direct Mail?

Sixty-seven and a half per cent of all mail directed to business executives reaches those to whom it is addressed, according to a two-year study by the Youngstown District Industrial Marketers. The percentage varies, however, according to the size of the company as gauged by the number of employees, ranging from 87.2 per cent in companies having up to 50 employees, to 12.9 per cent for those with 10,000 or more employees.

Questionnaires were mailed to 520 companies, ranging from manufacturers of capital equipment to producers of raw materials and service organizations.

With respect to the question, "Does *all* mail addressed to executives of your company reach them?" the collective answer was "Yes" in 67.5 per cent of the cases and "No" in 32.5 per cent. In the specific category of companies having from 1000 to 3000 employees, the answer was "Yes" 56.8 per cent, "No" 43.2 per cent. However, for the industrial classification, "Manufacturers of Containers or Packaging Materials," the answer was "Yes" 83.3 per cent, "No" 16.7 per cent.

To the important question, "Do executives and department heads save direct-mail advertising for reasons pertaining to their business?" it is interesting to note that engineering department heads answered 100 per cent "Yes." Next in order of those who save direct-mail advertising were the heads of purchasing departments, 92 per cent; sales department executives, 84.4 per cent; production department executives, 83.8 per cent; and general department heads, 80.0 per cent. The lowest percentage of affirmative answers was from the executive departments, only 71.4 per cent of which save their direct-mail advertising. *Industrial Marketing*, January, 1939, p. 31:1.

99,882 Customers Tell Us!

A recent study of the complaints of 99,882 customers of 14 department stores in five states has uncovered some interesting figures. Such complaints, it was found, may be broken down into seven groups, which occur in the following proportions:

1. Non-deliveries or delayed deliveries—46.8%
2. Claims, credits or refunds (the

customer expressed dissatisfaction because a credit or refund to which she was entitled was not forthcoming)—17.1%

3. Poor quality—15.5%

4. Damaged goods—7%

5. Wrong merchandise—4.6%

6. Short merchandise (the customer expressed dissatisfaction because she received only part of her order)—4.4%

7. Poor service (including personnel carelessness, failure to follow instructions, discourtesy or insolence, etc.)—4.1%

It should be emphasized that this is a breakdown of reported complaints only—those which were handled and traced through the adjustment department. Sample tests which have been made indicate that non-reported complaints are at least equal in total amount to those for which records exist. The frequency of complaints to transactions is, roughly, 3 per cent—which means that, for the one and three-quarter billion transactions of department, dry goods, and general merchandise stores in the United States, 52,000,000 complaints are made each year.

Twenty-nine per cent of all adjustments consist in making the delivery the customer desired in the beginning. One out of every five adjustments is a credit, refund or cancellation. Other types of adjustments (each of which constitutes less than 10 per cent of all adjusting action) include the making of new promises, duplicating the orders, issuing exchanges, making allowances, and correcting wrong addresses. Only in 1 per cent of the cases are no adjustments made.

This study discloses that, aside from the loss of business and good will, the average cost of an adjustment is about 90 cents. On the basis of 52,000,000 complaints a year, the adjustments made by department, dry goods, and general merchandise stores result in an annual loss of $47,000,000 — more than 1 per cent of net sales. By William J. Pilat. Address delivered before the National Retail Dry Goods Association, January 18, 1939. 11 pages.

Survey Indicates Sales Boom for Luxury Products

Late in December Ross Federal field workers went to 1507 heads of middle-class households in eight western and southwestern cities to determine what "out of the ordinary" purchases they were planning to make in 1939.

Analysis of the interviews shows that three-fifths of the families surveyed intend to buy at least one expensive product this year, with automobiles, refrigerators, trips and new homes leading the preferences. About two-thirds of the families are planning purchases averaging nearly $500.

The average automobile owned by these families is 31 months old, and nearly a quarter of the families covered by the study intend to buy a new car in 1939.

The survey indicates that families with children of school age living at home are slightly better prospects for luxury items than those without chil-

dren. However, 57.9 per cent of families with children are likely to buy on instalment terms, compared with 49.8 per cent of the families without children.

The great majority of families have already made a strong mental commitment on brands. For example, brand choices have been made on 80 per cent of automobile purchases, 70 per cent of refrigerators, and 57 per cent of radios. Many of these buying decisions may be changed by advertising and personal salesmanship, but the decisions thus far reached indicate the long pull of advertising and good will. *Sales Management*, February 1, 1939, p. 24:2.

FINANCIAL MANAGEMENT

Get In on the Middle Floor

Many years ago Chauncey Depew offered this sage advice to investors: "Get in on the ground floor." Yet he left in his estate 55,000 shares of stock with a value of $14,000,000 and 350,000 shares of other stocks which were worthless.

Mr. Depew, of course, was not exactly a business failure. Most of us would regard $14,000,000 as a fair accumulation for one lifetime. But the fact that he died with a large pile of "junk" in his strongbox illustrates the hazards of "ground-floor" investing.

Although instances may be found where ground-floor investors have obtained exceedingly large rewards, these instances are few as compared with the losses sustained by other investors in multitudinous cases. Generally it pays to enter on the middle floor rather than on the ground floor.

The General Electric Co. is an illustration of the theory. The ground-floor investor in GE stock would have obtained an average annual net gain of 30.4 per cent at the end of March, 1936, but the man who invested in 1921 would have obtained a like gain of 50 per cent.

Consider the motor car industry, in which the late Senator Couzens is said to have run a $900 ground-floor investment into $30,000,000. Since 1900 nearly 1000 companies have been organized to manufacture automobiles; but fewer than 200 of these ever produced a car, and today all but 33 have passed into the realm of the Great Auk and the Dodo. We hear much of Senator Couzen's good fortune, but nothing of the costly experiences of the other ground-floor investors in motor car stocks.

The Investment Bankers' Association tells us that 80 per cent of the companies organized in the United States in the course of a year fail or suffer severe losses, and the head of a statistical organization says: "1292 new industrial and commercial enterprises open their doors each business day;

daily, too, 1142 enterprises close their doors." These failures result from the hazards which accompany all businesses—particularly the new business in a new field—rather than from dishonesty or lack of business experience or capital.

With the possible exception of the airplane, all the important inventions of the past 30 years have been wholly or largely perfected by old-established organizations. And with this trend on the part of industry to diversify, the Depew theory of ground-floor investing, deservedly, is passing into the limbo of forgotten things. By James Calhoun. *Barron's*, December 19, 1938, p. 3:1.

Trend of Long-Term Debts in the United States

Private long-term debts in the United States fell 4 billion dollars from an estimated total of 74.3 billion in 1934 to 70.3 billion in 1937, extending a downward movement in progress since 1930. Public debts, comprising debts of Federal, state and local governments, continuing an upward trend in progress since 1930, rose from 46.8 billion dollars in 1934 to 55.9 billion in 1937.

Estimated interest payable accruing on long-term indebtedness declined 6.9 per cent between 1934 and 1937. A falling rate of interest, which enabled many borrowers to refund their debts at lower interest rates, and the relatively large sums obtained by the Federal Government at rates lower than the average, were the major factors giving rise to this divergence in trend between the aggregate amounts of interest payable and debt outstanding.

The average rate of interest payable on private long-term debt declined from 5.63 per cent of debt outstanding in 1934 to 5.28 per cent of debt outstanding in 1937. The amount of interest payable on private long-term debt declined from 4.18 billion dollars to 3.71 billion during this three-year period. During this time the interest payable on public debt experienced a relatively slight change. After declining 82 million to 1.59 billion in 1935, interest payable on the public debt rose during the two succeeding years to 1.74 billion in 1937, or only about 70 million more than the 1934 total. The estimated average rate of interest payable on public debt in 1934 was 3.57 per cent, as compared with 3.11 per cent in 1937. By J. Wesley Sternberg. *Survey of Current Business*, January, 1939, p. 10:7.

Something Business Can Do About Depressions

The depression problem is essentially (though perhaps not exclusively) a business affair. And since business profits are the mainspring of industry and one of the basic factors in the depression problem itself, business might well turn to a careful examination of one aspect of profits which is particularly related to the business cycle.

The failure to recognize that inventory profits introduce an important fictitious element in the earnings of many

corporations has been a major factor in aggravating the ups and downs of business. Inventory profits are artificial, unexpendable and temporary—coming with price advances, going with price declines. To consider them as income is clearly to mislead and confuse those who make important business policy decisions. Any effort to spend or distribute such inventory appreciation, in the form of dividends or otherwise, encounters the difficulty that the gains are not expendable and the funds distributed will have to be secured from other sources—very likely from bank borrowings.

It is not enough for a business merely to recognize these fictitious gains and leave them on the books as undistributed profits. They should be excluded from the reported earnings if they are not to be misinterpreted. Their exclusion can be brought about in several ways, and there is a considerable volume of accounting and other literature explaining the methods.

As between the two general methods of approach which are most frequently discussed—the inventory reserve method on one hand, and the base-stock or last-in first-out methods on the other—the latter have the advantage that they eliminate inventory profits both from the operating statement and the balance sheet. They hold the basic inventory investment at a constant unit value and charge current raw material costs against current sales. The disadvantage of the inventory reserve method, which estimates the amount of inventory profits and puts them in a reserve account rather than in profit and loss, is that those making the business decisions—and other analysts as well—may still feel that these reserves represent "profits" (and will be guided accordingly), even though they are earmarked.

For some industries, one method is more adaptable than another. The essential points of all the plans are, first, that profits are based on replacement costs, and second, that fluctuations in the price of the basic inventory are not allowed to affect earnings. By Henry B. Arthur. *The Journal of Accountancy*, January, 1939, p. 7:8.

Natural Audits

Whatever steps business men can take to curb fraudulent practices should be in order whenever possible. And, with the background of a spectacular and unfortunate recent case in the business world, adoption of the natural business year by business firms as the basis for their accounting period cannot be too highly recommended.

Increasing effectiveness of auditing would thus be materially aided. Accounting firms would be relieved of the heavy rush of activity around the December 31st period. And management would benefit because it would be making use of its particular annual low point as the time for closing its books, rather than some busier period.

For instance, the Natural Business Year Council has found, through study and research, that the natural business year for the large majority of firms in the wholesale drug business ends

June 30th. That, rather than the calendar year ending December 31st, is the time when wholesale drug inventories are usually lowest, when trade activity is at a seasonal ebb. It is conducive to easier checking of inventories and more accurate appraisal by those responsible for a firm's operations. Checking a small inventory means a lower expense item.

Adoption of the natural business year would not guarantee the elimination of business frauds, but it would help decrease certain types of fraudulent activity. And for that reason it must be deemed worthy of adoption by all firms after careful consideration of their particular needs. By Henry H. Heimann. *Credit and Financial Management*, February, 1939, p. 4:1.

INSURANCE

Insurance abstracts are contributed by P. D. Betterley, Insurance Consultant, Graton & Knight Company.

U. & O. Insurance Before and After Loss

The coinsurance form has been the subject of considerable controversy in the law courts. Because of the prevalence of this form, it would be well to consider it briefly. Two principal problems are involved: (1) the determination of the time of suspension; (2) the determination of the net profit and continuing charges.

In the case of a mercantile establishment, the amount which would have been earned during any suspension period can be estimated only by giving proper consideration to the probability of sales during the suspension period. If it is a manufacturing risk, the sales feature must be relegated to the background and the loss of productivity becomes paramount. It is observed that in many industries sales may be confined to a period of one or two months during the year, but manufacture of the articles to be sold may continue throughout the year. Any interruption in such operation may create a loss in sales at a later date.

The coinsurance clause compels the assured to take more coverage than he is likely to collect. In order to circumvent the apparent difficulty of requiring too much insurance, most jurisdictions have admitted an 80 per cent coinsurance form.

No assured can properly comply with the requirements, because there is a lack of definite knowledge as to the profits that might be earned during an unknown 12-month period which would immediately follow a fire loss of an unknown date.

Under the agreed-amount forms it is mandatory for the assured to certify to the accuracy of last year's income and expense statement, and on

the same sheet to project a U. & O. value statement for the insurance year. If the last year's operations are stated accurately, there is no coinsurance, and the insurance company agrees to accept the assured's estimate for the future period. The proper time to set up the use and occupancy value is before the loss occurs.

It has been common for adjusters to deduct from sales only the cost of goods sold, including inward freight, express and cartage, the discount on sales, ordinary payroll, and the cost of heat, light and power. This procedure obviously requires the assured to pay premiums on items such as bad accounts, store supplies, collection expense, sales taxes, and direct sales commissions. Most agreed-amount statements, however, permit the assured to deduct these items when computing the use and occupancy value. By F. S. Glendening. *The Insurance Post*, June, 1938, p. 6:3.

Retrospective Plan Proves Its Worth

Retrospective rating is now recognized as a great step forward. The whole plan is tied together into a simple, adjustable, equitable and salable rating method of determining the premium of a risk after the loss experience for the risk has been developed. Each year the number of employers who have reduced the cost of their compensation insurance under the plan has increased.

The plan is a great proposition for the individual who is sold on an accident-control program and who is willing to give such a program his wholehearted coöperation. More attention is being devoted to accident-control activities, which, under the plan, save the policyholder thousands of dollars in premium cost and in indirect or hidden costs. This plan makes policyholders more safety-minded and consequently more humanitarian. *The Eastern Underwriter*, October 14, 1938, p. 49:1.

Constructive Competition

Constructive competition implies constant improvement of insurance protection and service. One of the most common objections presented by insurance men to changes in contracts, or to liberalization of laws, is that there is no "demand" for them. This attitude is thoroughly fallacious in many cases. Insurance should not wait for a demand for an improved product. It should create the product and demonstrate to insureds that it is an improvement.

One way of meeting competition is to attempt to disable it by exclusive agreements, by boycotts or by prohibitory laws. In some communities there has even been a movement to curtail contributions to charitable or religious institutions which do not return them in the form of commissions.

In a recent address, Walter H. Bennett, General Counsel of the National Association of Insurance Agents, mentioned two dangerous possibilities in ill-conceived resident-agency laws: using them to attempt to create, in favor

of local agents, a monopoly running counter to modern business developments; and giving the public the impression that their only purpose is that of gathering in commissions merely for compliance with a formality.

Some of these practices may meet an immediate situation, but I am convinced that in the long run they are destructive in principle. By Ralph H. Blanchard. *The Insurance Post*, October-November, 1938, p. 7:3.

Static Electricity

Static electricity causes many fires in manufacturing plants. Static sparks will readily ignite flammable vapors or mixtures of fine combustible dust and air. Static charges, too small to be a fire hazard in themselves, may also indirectly result in fire by causing stock to stick together or to adhere to parts of machinery, producing mechanical friction and overheating.

The formation of static electricity, popularly described as the result of friction and rubbing, is really due to the action of contact and separation of dissimilar substances. Static is also produced when liquids flow through pipes or hose, when they fall through the air in drops or as a spray, when they are splashed around in tanks, and when air or other gases are bubbled through them.

If there is no means by which static electricity can drain or flow away as it is formed, the charge accumulates gradually. It may eventually develop a sufficiently high potential to break down the surrounding medium, and then a spark occurs when the charge jumps a gap to some nearby grounded or less highly charged object.

The generation of static electricity cannot be prevented, but dangerous accumulation of it can be avoided. Humidification, ionization, bonding and grounding, or a combination of these methods, are effective. *Factory Mutual Bulletin of Loss Prevention*, October, 1938, p. 1:2.

Extinguishers as Fire Fighters

The experience of many industrial companies with long records of low annual fire losses shows that the first line of defense against fire in every industrial plant should be formed by the regular workers armed with hand fire extinguishers.

The secret of consistently low fire-and-water losses is "every man in the plant a fire fighter."

This system applies equally well to large and to small plants. *The Weekly Underwriter*, November 12, 1938, p. 983:1.

When Is an Elevator Not an Elevator?

Many do not know when an elevator is not an elevator, insofar as insurance is concerned, for in some instances hoisting equipment is covered under Owners', Landlords' & Tenants' and Contractors' & Manufacturers' Public Liability policies of insurance without additional charge. In such instances an elevator liability policy is not necessary.

For casualty insurance purposes, an elevator is described as "a hoisting and lowering mechanism equipped with a car or platform which moves in guides in a substantially vertical direction." This definition is not intended to include dumbwaiters as herein defined.

Freight escalators are moving, inclined, continuous stairways or runways used exclusively for raising or lowering freight, located in manufacturing or industrial plants, and are not considered elevators for insurance purposes, or at least are not considered sufficiently hazardous to require a premium charge; but freight escalators in other types of buildings require an additional premium.

Contractors, hod and material hoists are not classified as elevators, insofar as insurance is concerned.

While hydraulic or mechanical hoists used for raising and lowering automobiles for lubricating and servicing are hoisting devices, they are deemed to be included as part of the premises hazard. *The Insurance Post,* October-November, 1938, p. 10:2.

Survey of Books for Executives

Unions of Their Own Choosing. By Robert R. R. Brooks. Yale University Press, New Haven, 1939. 296 pages. $3.00.

The observer in the industrial relations field at this time cannot help but notice that despite a barrage from editorial pages of newspapers throughout the country and despite numerous fusillades from many employer groups —to say nothing of attacks from such vitally interested bodies as the A. F. of L.—the National Labor Relations Board has received quiet documented endorsement from students of labor relations who have inquired into its operations.

The latest apologist for the NLRB is Professor Robert R. R. Brooks of Williams College, who bases his study and conclusions on a long and searching look at the record. Since publication of the volume on January 24th, it has received favorable comment everywhere. No doubt many readers will remember Mr. Brooks for his volume, "When Labor Organizes," which when published in 1937 also drew the plaudits of reviewers.

Mr. Brooks declares in effect that the NLRB is badly misunderstood. It is not unfair to the employer; it does not discriminate against the A. F. of L. in favor of the CIO; it does not abuse its power as fact-finder, prosecutor and jury; it does not pillory the employer. It merely executes in a fair manner the provisions of a law calculated to give labor its freedom

and prevent strikes, Mr. Brooks finds. The statistics to back up these conclusions are impressive. The record shows that the Board has displayed remarkable discretion and forbearance in discharging its duties. The most cogent fact of all is that the Board succeeded in adjusting 55 per cent of its cases without taking formal action; in 16 per cent of the thousands of cases handled, the charges against the employers were dismissed; in 24 per cent of the cases, the unions withdrew their charges.

However, there were 250 formal cease and desist orders issued in the first three years of the administration of the Act, and almost all of these were of bombshell character. They made headlines, were commented upon in editorials, and caused cartoonists to charcoal the NLRB as a warped plank and as a pie-eyed baseball umpire. Consequently, public opinion decided that the Board was a biased body inflamed with communistic fevers.

Mr. Brooks sets forth the Board's statistical record in convincing fashion, but his most interesting passages are concerned with the actual cases that the Board and its examiners have handled. In these the Board is depicted as a wise adjuster of employer-employee differences, doing all in its power to settle family squabbles without resorting to formidable court orders. Mr. Brooks says that in many cases the trouble arose from misunderstandings between the company and the workers, and a mere airing of each other's feelings before an impartial judge was enough to cause the aggrieved ones to kiss and make up.

By all odds this is the most sweeping and convincing study of the Board and its efficacy that has appeared. Mr. Brooks is an able investigator and a competent reporter.

The Causes of Economic Fluctuations. By Willford I. King. The Ronald Press Company, New York, 1938. 353 pages. $3.50.

Depression and upward and downward swings in business conditions are perhaps the most difficult problems business leaders must face. Professor King analyzes these problems in this book. His analysis is much more useful to the business man than that found in many other current books because he faces the problems directly instead of discussing obscure theories.

Professor King develops the best case the reviewer has seen for flexible wage rates. Much unemployment could be averted, he maintains, if laborers offered their services at all times at rates business managements could afford to pay. From this premise he develops the interesting proposition that only rich countries can afford deep depressions. In poor countries, such as China, funds for extensive relief payments cannot be obtained. People work for what they can get, and consequently there is little unemployment.

Professor King presents some excellent material on misleading and inadequate explanations of depressions. He points out that there is fairly gen-

eral agreement among students as to what has occurred in previous crises and depressions, but a good deal of disagreement as to why it occurred. Misleading conceptions involved in ideas of overproduction, oversaving and maldistribution are criticized authoritatively. Professor King shows that it is inadequate to say depressions are caused by monetary disturbance, planless production, or agricultural maladjustment.

Depression is held to be possible because of mass movements in public sentiment, the granting of credit, and the rigidity of prices. Some evidence is presented that the cycle of business conditions arises from the effect of spots on the sun, perhaps through the medium of ultra-violet rays. This is an old theory, and the most recent evidence supporting it has some plausibility. The reviewer believes, however, that we should do well to proceed cautiously in ascribing much credence to it.

Professor King properly is much concerned with ways of ending deep depressions. He looks most favorably on a scheme under which the Treasury would buy and sell government bonds. When consumer buying lags, he thinks the Treasury should buy bonds; and when optimism becomes too rampant, it should sell. Together with this arrangement he proposes that contracts might well call for a stated proportion of gross income rather than a fixed money payment. This would make the amount of all incomes flexible, because the amount of each income would drop with a drop in the gross. This might not be wholly effective, however, because one of the ways downward movements are halted is by means of disproportionate declines in some income streams.

The buying and selling of bonds might keep the total amount of purchasing power fairly level, but could not keep its rate of use level. Slower use of purchasing power is just as damaging as subnormal amounts.

If such schemes should fail to work, King advocates more drastic methods, such as requiring manufacturers to agree to furnish a given quota of employment. This plan would tax both employer and wage earner if a large deviation from an assigned quota existed. As King realizes, the arrangement is rather rigid.

The arguments presented against staggering employment, wage-rate maintenance, price maintenance, or the use of public works and the creating of government debt to correct depression are worth reading.

Reviewed by Elmer C. Bratt, Lehigh University.

The 1938 Mental Measurements Yearbook of the School of Education, Rutgers University. Edited by Oscar Krisen Buros. Rutgers University Press, New Brunswick, N. J., 1938. 415 pages. $3.00.

In view of current trends in industrial relations, the importance of measuring abilities and other characteristics of employees has assumed especial significance in many business or-

ganizations during the last few years. This book is a systematic effort begun about 1933 by the editor at the School of Education of Rutgers University to present reviews of tests and techniques in the field of mental measurement. It is a technical volume which may possess particular value for those interested in personnel research and statistical methods.

A major part of the yearbook includes critical summaries and reviews of tests in education and industry. More emphasis is placed on tests in educational institutions than on those of business organizations. The section on vocational tests, which will be of particular benefit to business organizations, is brief.

Business executives, personnel directors, and those engaged in personnel research will be impressed by the broad development that has taken place in this field and by the scepticism that is indicated in this volume toward mere application of tests. Too much emphasis is perhaps placed on "consumer opinion concerning tests." Tests and measurement techniques are not established by mere opinion, as some of the reviews in this book appear to imply. The merit and practical value of tests in educational institutions and business organizations can be determined only by systematic and scientific criteria, and not by opinions of test users. Certain practical aspects of testing procedure may of course be clarified by obtaining opinions of supervisory and executive personnel, either in education or in industry. Nevertheless, statistical and factual evidence, rather than opinion, fall within the province of specialists in the field.

Reviewed by Richard S. Schultz, The Psychological Corporation.

Health Insurance with Medical Care. By Douglass W. Orr and Jean Walker Orr. The Macmillan Company, New York, 1938. 271 pages. $2.50.

Health insurance is a social measure to which more attention will inevitably be given in the United States in the next few years. This book by Dr. and Mrs. Orr is a look at British methods and experience. The couple went to England and interviewed insured workers and their doctors. They found that, except for a few consultant doctors, the British people and British physicians not only want health insurance but want more of it. In England it is considered a vital public function. As many Britishers put it: "You might as well abolish the Post Office as throw out the health insurance program."

How is it administered? The authors' "Note on Administration" states: "If National Health Insurance were actually 'state medicine' as usually portrayed, one could put its administration in a phrase—'another government bureau'—and let it go at that. The English scheme is neither so centralized nor so simple. What central administration for N.H.I. there is, is headed by the Minister of Health, who of course holds a Cabinet portfolio. He is a political officer like all mem-

bers of the Cabinet, and usually he is not a physician. But under him is an expert staff of permanent Civil Servants, including an adequate medical staff. For the most part, however, the system is operated on the one hand by the Approved Societies, which are the insurance carriers and handle the non-medical benefits, and on the other hand by local Insurance Committees which administer the medical benefits.

"Approved Societies . . . are non-profit-making insurance carriers organized especially under conditions set forth in the N.H.I. Acts and under the supervision of the Ministry of Health. Any group of insured persons may form an Approved Society for purposes of carrying out the provisions of the health insurance acts. Smaller societies arise through some community of interest, whether occupational, social or religious, or within a large plant or corporation. Whatever the society's connections, however, it must not be run for profit, its affairs must be kept under the ultimate control of the insured persons composing its membership, and its administration must be kept financially sound. There are over 1000 Approved Societies in Great Britain, with 6000 branches, their membership varying from 100 to over 2,000,000."

British National Health Insurance is a compulsory and contributory scheme. The contributors are the workers, the employers and the State. For purposes of health insurance each worker pays about 10 cents a week, which is deducted from his wages by the employer, who adds a similar amount. Besides paying the cost of central administration, the government pays approximately one-sixth of the total benefits disbursed to insured workers and about the same fraction of the administrative expenses of Approved Societies and Insurance Committees. Benefits are of two types: (1) medical care and necessary medicines—medical benefit—provided by general practitioners and chemists under the general administration of regional (County and County Borough) Insurance and Panel Committees; and (2) cash benefits, which are administered through the state-supervised Approved Societies.

Briefer Book Notes

PROFITS OUT OF WALL STREET. By H. Wilder Osborne. Alfred A. Knopf, New York, 1939. 51 pages. $1.29. An eminently practical book for the investor—not the average man whose ear is open for the latest tip, but for the man with some stock market experience who wants to guide his own affairs with common sense. Mr. Osborne offers no foolproof system for selling at the top and buying at the bottom; instead, he presents Dow's Law of the Price Trend and tells us how to detect its operation by consulting the averages and constructing our own charts. The whole is couched in simple and direct language.

THE BIRTH OF THE OIL INDUSTRY. By Paul H. Giddens. The Macmillan Company, New York, 1938. 216 pages. $3.00. In this volume Professor Giddens presents a well-integrated and graphic narrative of the origin and development of the petroleum indus-

try in western Pennsylvania up to 1870. His description of the drilling of Colonel Drake's famous well in 1859 and the mad rush for land that followed is an extraordinary blend of dramatic detail. The book has particular value as a working model of the American industrial system in the middle period of our national life.

ADVERTISING MEDIA. By Hugh E. Agnew and Warren B. Dygert. McGraw-Hill Book Company, Inc., New York, 1938. 465 pages. $4.00. A key to the analysis and comparison of advertising media, to meet the needs of both the seller and buyer of advertising "space." The authors not only show the methods by which circulation and other factors may be compared as between different media, but also survey the various types of media, the services they perform, their strengths and weaknesses, rates, etc. A practical and unbiased approach to this specialized subject.

WORLD TRADE. By Ethel B. Dietrich. Henry Holt and Company, New York, 1939. 458 pages. $2.75. This book deals with the actual processes and problems of international trade today, considered in the light of the plans and ambitions of participating nations. Dr. Dietrich examines such trade techniques as import quotas, foreign exchange control, clearing and payments agreements, and free ports, and attempts to evaluate them as instruments to implement national policies.

COST ACCOUNTING: FUNDAMENTALS AND PROCEDURES. By Clarence L. Van Sickle. Harper & Brothers, New York, 1938. 998 pages. $7.50. An encyclopedic guide to the latest and best techniques of accounting for costs. In addition to treating practically every phase of production costs, the author devotes adequate space to administrative costs and presents a novel approach to marketing costs and budgetary control. The volume should appeal to executives and industrial engineers as well as to accountants and students of accountancy.

THE ABC OF THE FEDERAL RESERVE SYSTEM. By Edwin Walter Kemmerer. Princeton University Press, Princeton, N. J., 1938. Eleventh edition. 292 pages. $2.50. A definitive work which clearly and concisely analyzes the growth and evolution of the Federal Reserve System. A new final chapter summarizes the most recent changes in the system. This study has been a classic since it was first published in 1918.

BUSINESS ENTERPRISE IN THE AMERICAN REVOLUTIONARY ERA. By Robert A. East. Columbia University Press, New York, 1938. 387 pages. $4.25. Mr. East studies the origins of corporate and other big business enterprises which appeared in steadily increasing numbers after the War of Independence, and evaluates the constructive economic effects of the war and post-war years.

EDUCATIONAL BROADCASTING: 1937. Proceedings of the Second National Conference on Educational Broadcasting. Edited by C. S. Marsh. The University of Chicago Press, Chicago, 1938. 387 pages. $3.00. These proceedings include papers on: the viewpoint of the radio industry and of the radio listener; the need for standards in educational broadcasting; radio as a present-day force; radio and the child's education; and classroom use of radio.

COMPARATIVE ECONOMIC SYSTEMS. By William N. Loucks and J. Weldon Hoot. Harper & Brothers, New York, 1938. 838 pages. $3.50. A clear, practical analysis of socialism, communism, fascism, cooperation and capitalism from the economic viewpoint. The various programs of these economic systems are described without interpretative comment. There is no separate section treating capitalism; instead, in the discussion of other types of economies, the principles of capitalism serve the purpose of comparison and contrast.

MANAGEMENT OF A TEXTILE BUSINESS. By C. Canby Balderston and Victor S. Karabasz. The Textile Foundation, Washington, D. C., 1938. 210 pages. $2.00. A study of the operation of an individual enterprise. The authors describe the layout of a textile mill and its equipment; control of labor and labor costs; procurement and storage of materials and supplies; control of the flow of orders through the mill; price setting; and control of the business as a whole through organization, supervision and budgeting.

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